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LENDING THE SBA WAY

U.S. Small Business Administration
Office of Finance and Investment

SBA 1.2:

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WHY SBA?

Long Term Financing for Growth and Profitability

SBA Guarantees 30%-40% of all Long Term Loans to Small Businesses Nationwide

Many small businesses need "term" loans of five to 25 years, but find most commercial lenders limit their lending to short-term accommodations.

The SBA guaranty program enables lenders to provide longer-term financing by reducing the risk inherent in longer loan maturities.

Lenders can:

- Broaden their lending activities
- Maintain desired liquidity of assets
- Provide better service to their customers
- Receive a fair return on their money
- Receive reasonable compensation for administering loans

Small businesses benefit because they can obtain needed credit not otherwise available on reasonable terms. They are better able to manage the debt and do longer range planning.

If small businesses are part of your market, let the SBA Guaranty Loan Program help you make them your long-term customers.

BOTTOM LINE BENEFITS

1. Selling in the Secondary Market:
   a. Immediate liquidity
   b. Increased return on investment
   c. Increased use of allocated funds
   d. Increased deposits
2. Improved regulatory ratios
3. Exceed statutory loan limits
4. Collateral for Treasury Tax and Loan Accounts
5. Pledge to Public Funds
6. Eligible Collateral for Federal Reserve Bank Advances
7. Community Reinvestment Act Credit

CERTIFIED AND PREFERRED LENDERS

The most active and expert lenders qualify for SBA's streamlined lending programs. Lenders are delegated partial or full authority, which results in faster service. Certified Lenders are given a three-day turnaround on their applications. Preferred Lenders may decide unilaterally to guarantee an application, but receive a lower guaranty percentage.

IN A NUTSHELL

HOW IT WORKS

- SBA guarantees up to 90% of a loan made by lender
- Lender checks with SBA prior to formal application for "ballpark" feasibility of project
- Lender submits letter of intent to SBA if interim financing is to be supplied prior to formal consideration of the loan request
- Lender forwards application and deals directly with SBA officers
- Completed applications are processed by SBA in 20 WORKING DAYS or less

A LONGER TERM

- Usually 5-7 years for working capital
- Up to 25 years for real estate

INTEREST RATE

- Both fixed and variable rates
- Rate pegged to the lowest prime rate as listed in the *Wall Street Journal*
- Pegged at up to 2-1/4% over the lowest prime rate for loans of less than 7 years
- Pegged at up to 2-3/4% over the lowest prime rate for loans of 7 years or longer

WHO QUALIFIES

- Independently owned and operated businesses not dominant in their fields
- Businesses unable to obtain private financing on reasonable terms, but with a good chance of succeeding

MAXIMUM SIZE STANDARDS

- Manufacturing – varies by industry from 500 - 1500 employees
- Wholesaling – up to 100 employees
- Services – from $2.5 million to $14.5 million in annual receipts
- Retailing – from $3.5 to $13.5 million
- Construction – from $7.0 to $17 million

LOAN PURPOSES

- To expand or modernize facilities
- To purchase machinery, equipment, fixtures, and leasehold improvements
- To finance increased receivables and augment working capital
- To refinance existing debt for compelling credit reason of benefit to borrower
- To provide seasonal lines of credit
- To construct new commercial building
- To purchase existing land and/or buildings

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MAXIMUM AMOUNT, REPAYMENT, COLLATERAL

- Guarantee(s) totaling a maximum of $750,000
- More than one loan is possible
- A 90% guarantee for loans up to $155,000
- An 85%guarantee for loans of $155,000 and over
- Monthly installments of principal and interest
- No balloons; no penalty for prepayment; no application fee; no points
- May delay first payment up to six months
- Take all collateral available; may include personal property

WHAT WE LOOK FOR

- Management ability and experience in the field
- Feasible business plan
- Adequate investment (approximately 20%-30% equity) by the owner in new business starts
- Ability to repay the loan from the projected cash flow and profits

WHAT THE APPLICANT NEEDS TO TAKE TO THE LENDER

- Statement of what the loan will be used for
- History of the business
- Financial statements for three years (balance sheet and income statements) for existing businesses
- Schedule of term debts (for existing businesses)
- Aging of accounts receivable and payable (for existing businesses)
- Lease details (if available)
- Amount of investment in the business by owner
- Projections of income, expenses and cash flow
- Signed personal financial statements
- Personal resumes

INTERESTED?

Contact your local SBA Office or write:
Office of Financial Institutions
Small Business Administration
1441 L Street, N.W., Room 804
Washington, D.C. 20416

U.S. Small Business Administration
Mail Code 6120
Washington D.C. 20416

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